

# IT'S THE ECONOMY, STUPID!

The dollar is weak. Food and oil prices are high. Our nation is spending well beyond its means and owes trillions of dollars in debt to foreign governments. What most of the gloom-and-doom reports don't provide, however, is perspective—a historical survey of an economy that's been through more than a few ups and downs in its day. Here's a farsighted view of how our temperamental economic machine works, and a close-up of how it stands today. **KEY DEFINITIONS**

## THE NATIONAL DEBT

This is the total outstanding amount that our federal government has borrowed up to the present day.

To borrow money, the U.S. Treasury issues securities such as bills, notes, and savings bonds to individuals, corporations, and foreign, state, and local governments.

**U.S. National Debt**  
in inflation-adjusted 2007 dollars

U.S. National Debt — — —  
in actual dollars, U.S. Treasury figures

Debt: \$269.5 billion  
GDP: \$916.5 billion

## GROSS DOMESTIC PRODUCT

The GDP is a way to understand the size of a country's economy. It is the dollar value of the total goods and services that the nation's population produces.

It is usually calculated by adding up everything the population spent plus the country's net exports.

By tracking GDP over time we can evaluate the health of the economy.

**U.S. GDP**  
in inflation-adjusted 2007 dollars

\$201.1 billion  
\$1.1 trillion

## INFLATION-ADJUSTED DOLLARS

Figures that have been corrected for inflation, allowing us to compare the price of a product over different time periods using a single value for the dollar.

## ACTUAL DOLLARS

Figures shown in the money value of a particular time in the past.

## STOCK INDICES

**The Dow Jones Industrial Average (the Dow)**  
An index that tracks the stock prices of 30 prominent companies.

**The Standard & Poor's 500 (The S&P 500)**  
An index that tracks the stock prices of 500 large American companies.

## THE BUSINESS CYCLE

A **BOOM** is a period of economic growth or expansion, while a **BUST**, or recession, is a long-term cycle of economic contraction. From 1854 to 1945, the typical boom or bust lasted 21 months. Since World War II, expansions have averaged 50 months and contractions have averaged 11 months.

## RECESSION

A recession, also called a "bust," is generally defined as two quarters of slow or negative GDP growth.

The technical definition, as set by the National Bureau of Economic Research, a private nonprofit research organization, is when economic factors such as GDP, income, employment, industrial production, manufacturing, and sales significantly decline over the course of more than several months.

## STAGFLATION

A term first used in the 1970s for simultaneous inflation and stagnation—a prolonged recession—two phenomena that were thought to be mutually exclusive before that time.

## WHO OWNS AMERICA?

A big chunk of the **national debt**—about 28%, or \$2.6 trillion—is held by foreign governments.

**Top five foreign holders of treasury securities from largest to smallest:**

Japan • China • the United Kingdom • oil exporters\* • Brazil  
\*Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya, and Nigeria



\$11.8 trillion



The federal government doesn't follow the same accounting practices it requires corporations and state and local governments to follow. If it did, the national debt would actually be **\$59.1 trillion**.

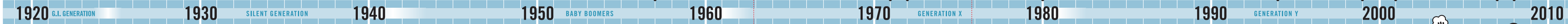
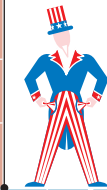
If U.S. citizens were to pay down the entire national debt today it would cost every household approximately **\$516,000**.

U.S. national debt  
\$9.6 trillion  
(through summer 2008)

**Want to reduce the national debt? The government has a suggestion:**

Send it a check payable to the Bureau of the Public Debt; in the memo section, note that it is a gift to reduce the debt held by the public.

**Mail your check to:**  
Attn: Dept G  
Bureau of the Public Debt  
P.O. Box 2188  
Parkersburg, WV 26106-2188



**BOOM**  
**The Roaring Twenties:** The number of taxpayers earning between \$10,000 and \$100,000 increases 84%.

1929 3.2%  
**October 28, 1929 BLACK MONDAY**  
The stock market loses 22.6% of its value, the biggest one-day percentage drop in U.S. history.

1922 6.7%

## UNEMPLOYMENT RATE

The percentage of the workforce—people of working age who are looking for work—without a job.



## THE STOCK MARKET

A market where shares of companies are issued and traded, giving investors some ownership in a company while providing those companies access to capital. In the United States, stock prices are an indicator of economic health.

**The National Association of Securities Dealers Automated Quotation (NASDAQ)**  
The first market in the United States to feature electronic trades.

**The New York Stock Exchange (NYSE)**  
One of the world's largest stock markets, and the oldest in the United States.



**BOOM**  
**Postwar Growth:** Auto industry and housing expand and birth rates rise.



1960 5.5%

## INFLATION

Over time, prices for goods and services rise due to factors such as an oversupply of money in the market or increasing energy costs. The nasty corresponding effect is that the nation's currency has less purchasing power.

Inflation threatens an economy mostly because of its unpredictability—since it's impossible to know when or how much prices will rise, consumers can react strongly to price shock.

**The effect of inflation:**  
A half-gallon of milk in actual dollars



**BUST**  
GDP falls by 4.9% in inflation-adjusted dollars.

**BUST**  
Business bankruptcies rise by 50% from 1981 to 1982.

1980 7.2%

**October 19, 1987 BLACK MONDAY**  
The largest one-day percentage drop of the Dow Jones index. The market declines 508.32 points (22.6%), losing \$500 billion in one day.



**BOOM**  
**Tech revolution:** Dotcom start-ups emerge; investments pour into information technology.



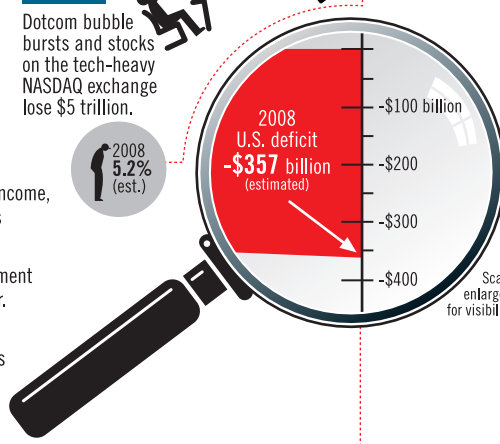
**BUST**  
Dotcom bubble bursts and stocks on the tech-heavy NASDAQ exchange lose \$5 trillion.

2008 5.2% (est.)

**THE NATIONAL DEFICIT**  
The **national budget** is financed by government income, i.e., what the government brings in through taxes and other fees for public services.

A budget **deficit** results when the federal government spends more than it brings in during a given year. A **surplus** is when more is brought in than spent.

When the government spends as much as it takes in, the budget is **balanced**. To cover a budget deficit the government borrows money; this borrowing then increases the national debt.



Scale enlarged for visibility

A half-gallon of milk 1930 \$.28



1933 24.9%



1940 \$.26



1950 \$.41



1960 \$.52



1970 \$.66



1980 \$1.05



1990 \$1.39

Half-gallon price unavailable for 2000



2008 (1st q.) \$2.40

## HAVES AND HAVE-NOTS

In 2000, the median American family made about \$61,000. In 2007, it made \$60,500 (both numbers in inflation-adjusted 2007 dollars).

In 2007, the median annual income for Americans aged 65 and older was \$16,770. The Congressional Budget Office projects that 28 million American households will need food stamps in 2009—on par with the program's 1994 record for participation.

43% of American households spend more than they earn annually.  
44% of American employees said they live "paycheck to paycheck" in 2007, up from 37% in 2006.

The average American household has \$8,565 in credit-card debt, which is 15% higher than it was in 2000.

Approximately 42% of American households lack enough liquid savings to support themselves for three months.